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EVALUATION OF THE THREE ALTERNATIVE OPTIONS SUGGESTED BY THE SEVENTH MEETING OF THE FOLLOW-UP COMMITTEE ON INDUSTRIALIZATION IN AFRICA FOR THE MANAGEMENT OF THE AFRICAN INDUSTRIAL DEVELOPMENT FUND (AIDF)*

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* This document has not been formally edited.

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I. Background

The main objectives of the AIDF are: to mobilize financial and human resources and make them readily available for pre-investment activities, leading to the development of multinational or large national industrial projects of high priority, but which do not meet the criteria of conventional lending institutions. 1/ The AIDF is one of the regional inter-country institutions stipulated in the Lagos Plan of Action expected to promote socio-economic co-operation among African countries. 2/ Furthermore, the Fund will play a crucial role in the implementation of the Programme for the Industrial Development Decade for Africa (IDDA), especially as it relates to priority core industrial subsectors and areas as well as intra-African industrial co-operation. 3/

The African Plenipotentiaries meeting in Addis Ababa, from 15 to 17 October 1979 approved the setting up of AIDF and, in its resolution (i), decided to entrust the ADB the administration of the AIDF. However, the Ministers of Industry were expected to exercise policy control over the Fund.

The Seventh Meeting of the Follow-up Committee (of the Whole) on Industrialization in Africa, held in Kigali, Rwanda in March 1983, expressed dissatisfaction on the lack of progress towards establishing the AIDF, due to the ADB's then prevailing position that, for the Bank to play its envisaged role, the approval of the management agreement should be deferred until the whole concept of an AIDF has been reviewed by the Bank or that the Fund should be set up as a Special Fund under the Bank's own Charter provisions.

The Follow-up Committee meeting proposed three alternative options on AIDF management to be studied by ECA, OAU and UNIDO; and that ADB should be invited to state its own position on the options. The options are:

(1) Accept the proposals for management as stipulated by ADB;

(2) Decide that the Board of Governors of ADB would also be the Board of Governors of AIDF, while the Ministers of Industry would provide policy guidelines and the President of ADB would report to the Conference of African Ministers of Industry;

(3) Set up the AIDF as an independent and autonomous body.

1/ See: Agreement establishing the African Industrial Development Article II.

2/ OAU, Lagos Plan of Action, para. 90(a) (iii)

3/ IDDA Programme, Chapter II, paragraph 315.

II. Functions of Managing the AIDF

In accordance with Article III of the draft Management Agreement between the several States party to the Agreement establishing the AIDF and the ADB: "...., the Fund shall be administered by the Bank. For this purpose, the Bank shall, subject to the AIDF Agreement, the limitations referred to in Article XI of this Agreement and otherwise as hereinafter provided, conduct the ordinary operations and manage the affairs of the Fund and to this end, shall perform its undertakings pursuant to this Agreement in accordance with normal development banking practices with the same diligence as it exercises in the conduct of its own business and in the best interest of the Fund. In particular, it shall provide the Fund with the services hereinafter mentioned and act as advisor to the Fund in respect of the attracting of industrial investment, the mobilization of resources, and the allocation, disbursement and monitoring of funds for the purpose of the Fund" 4/.

Article XI of the Management Agreement, which stipulates limitations to the performance of the Bank in discharging its managerial obligations, indicates clearly how, in certain cases, the Bank and the ADB President will have to operate on basis of the priorities, policy, guidelines and criteria as formulated by the Ministers of Industry from time to time.

In respect of the above, the functions of managing the AIDF include the following:

(a) Planning and programming of AIDF activities, subject to the general guiding principles, priorities and criteria provided by the Ministers of Industry.

(b) Administrative functions: will include provision of office accommodation; the employment and deployment of staff; processing of applications for loans; convening Boards of Directors; collecting, keeping and disbursing funds of AIDF on basis of strict accounting procedures; as well as undertaking other administrative duties for the efficient and smooth running of the AIDF.

Subject to approval by the Board of Directors of the Fund, preparation of work and lending programmes and budgets. Convening of the AIDF Board of Governors' meeting shall be the collective responsibility of the AIDF Board of Directors.

(c) Mobilization of resources, shall strictly remain the responsibility of the Boards of Directors and Governors who shall also specify policy and criteria determining the terms and conditions under which funds are made available. Article 5 of the Agreement establishing the AIDF stipulates the sources from which resources are to be mobilized for the AIDF.

At the operational level, the management shall be responsibleefor the collection and management of such funds.

4/ The draft Management Agreement was negotiated between ECA and ADB in Addis Ababa on 18th March 1980 on basis of the resolution adopted by the Meeting of African Plenipotentiaries for the establishment of the Fund. In view of the new proposals, This Management Agreement needs to be modified. See also evaluation of option 1 under section III of this report.

(d) Project evaluation, financing and implementation: The evaluation and supervision of the project financed by AIDF will require varied and experienced technical competence to undertake these functions which shall be the responsibility of the AIDF management.

(e) Allocation of resources among competing claims shall be a function of management of the AIDF. However, this function must be carried out in accordance with the priorities and criteria established within the overall policy framework provided by the Board of Governors (Ministers of Industry), with a view to achieving the aims and objectives of the AIDF, especially in the promotion of multinational industrial core projects at subregional and regional levels.

(f) Disbursement of funds will mainly relate to implementation of approved projects and to administration. It is the usual practice that, even after allocation has been made, work carried out concerning funds previously disbursed has to be evaluated and certified. On basis of such evaluation and certification, activities which merit further disbursement can then be determined.

(g) Accountability: The management must give account to the Board of Governors from whom it derives its authority for collecting and managing the mobilized resources. This accountability shall take the form of an independent audit and submission of periodic reports (quarterly, annual and biennial) on its operations. Such reports shall be submitted to the Board of Governors who will determine whether or not the resources received by the management of the AIDF have been properly applied and in conformity with the aims and objectives of the AIDF. On basis of such reports, the Board of Governors can then formulate policies more appropriate to future operations of the AIDF.

III. Evaluation of the Three Options for Managing the AIDF

Immediately after the seventh meeting of the Follow-up Committee on Industrialization in Africa, ECA transmitted to ADB the conclusions reached at the meeting. In response, the ADB sent a telex message dated 20 April 1983 to the effect that "after a thorough consideration, the option which best suits the ADB constitutional circumstances is the one where the Bank's present organizational structure equally applies to the AIDF subject to a cost sharing formula to be agreed between the Bank and the Fund and the ECA/UNIDO undertaking to ensure replenishing of the Fund. This arrangement may not necessarily exclude the possibility of the President of the ADB addressing the Conference of African Ministers of Industry on matters relating to the Fund".

A copy of the first draft of this study was sent to OAU, UNIDO and ADB for comment. OAU and UNIDO accepted the basic assumptions and conclusions of the study, pending the ADB reaction particularly on how the policy guidelines by the Ministers of Industry would be transmitted to the AIDF under Option 2.

Option 1: Accept the proposal for management of AIDF as stipulated by ADB

This option implies the full management of the AIDF by ADB, undertaking all the functions of management as summarised under section II above, and for which ADB is deemed fit to undertake. However, on basis of former messages received by ECA, 5/ the ADB previously stipulated proposals which seem to deny the Ministers of Industry any position where they can exercise control over the AIDF policy and management.

The ADB reaction to the first draft of this study, as conveyed by the Secretary-General of ADB*, has provided some more details which give a clearer perception of the Bank's views in relation to the management of the Fund. It is now clear from the ADB reaction, that the Bank's proposals for AIDF management are based on the Bank's statutory limitations and concrete experience in operating the management of other special purpose funds entrusted to it, e.g. the African Development Fund, the Nigerian Trust Fund, the Arab Oil Fund, etc.. Originally, these proposals were inadequately formulated, and hence the ensuing lack of progress in establishing the Fund on operational basis.

First of all, it should not appear that the Ministers of Industry were entrusting the President of the Bank with the management of AIDF as a special responsibility. This would be contrary to ADB statutory instruments. At any rate, the ADB President who is under the authority of the ADB Board of Governors, is answerable to this Board on all activities undertaken by the Bank, including also the management of special funds.

Secondly, ADB's proposals for the administration of AIDF do not in anyway prevent the African Member States from including Ministers of Industry as participants in ADB's Annual Meetings either as members of their respective country's delegations or as Alternate Governors or Temporary Governors in order to make direct input in the establishment of the policy directives concerning the AIDF. This would resolve the question of transmitting to the Fund the policy decisions of the Ministers of Industry; and the Ministers of Industry would retain their control over the management of the Fund.

According to established banking procedures, the ADB would never impose its own policies on the operations of the Fund. The Bank would, therefore, expect the Ministers of Industry, through the ADB Board of Governors, to work out their own policy guidelines and regulations as well as a set of criteria for loan financing and other management functions. To assist in this endeavour, the Ministers should select a Board of Directors who shall also supervise the management of the AIDF by the ADB.

Alternatively, the Board of Governors of the AIDF could constitute an entirely distinct body which would hold its meetings in parallel with the Conference of African Ministers of Industry or its Follow-up Committee to deliberate on matters of AIDF policy and Management. Their decisions would then be transmitted to the AIDF Management through the AIDF Board of Directors selected by the Ministers of Industry to oversee the AIDF Management. This will, in no way, exempt the ADB from reporting to its Board of Governors concerning the Bank's activities designed for AIDF operations.

5/ (i) ADB letter to ECA on the management of the AIDF, dated 18 July 1980;
(ii) ADB letter to ECA on the management of the AIDF, dated 15 May 1981;
(iii) ADB telex message No. 3263, dated 20 April 1983

* See: Note on ADB/ECA Meeting on the Management of the AIDF, 5 December 1983.

Thirdly, it must be understood that ADB itself is not a commercial Bank with the aim of maximization of profits as its guiding principle. Thus there is no conflict with the AIDF objective of financing regional and subregional projects of high priority but which do not meet the criteria of conventional lending institutions.

Furthermore, a decision of the African Ministers of Industry, once accepted by member countries, becomes a matter of Government policy and, as such, the ADB Governor have nonetheless got a duty to officially bring the decision of the Ministers of Industry to the attention of the ADB. It is also expected that if ADB is entrusted with the administration of the AIDF, ADB's concern with the industrial development of Africa will have an added momentum, not only in its capacity as an administrator, but also as an eventual financier of some of the projects resulting from the pre-investment studies made by the AIDF.

Implications of the ADB proposals for AIDF Management

(a) Control of the AIDF policy

(i) Transmission and implementation of policy decisions:

Policy decisions reached by the Ministers of Industry in respect of the AIDF will easily be conveyed to the AIDF management either by the AIDF Board of Governors constituting an integral part of the ADB Board of Governors or by the AIDF Board of Directors selected by the Ministers of Industry to oversee the management of the AIDF by ADB.

(ii) Review of management relations between AIDF and ADB:

Article 17.4 of the AIDF Agreement provides for the Board of Governors of AIDF to review existing organizational structure of the Fund and its relationship to the Bank, with a view to maintaining their control over the AIDF policy. Since the AIDF Board of Governors, composed of African Ministers of Industry, may either be an integral part of the ADB Board of Governors or a distinct body, the Ministers of Industry will be in a good position to review the management relations between AIDF and ADB as need arises.

(iii) Procedure for amending the AIDF Agreement:

Article 42.1 and 2 of the AIDF Agreement provide that only the Board of Governors of the AIDF can amend its constitution. In this connexion, the Ministers of Industry will be able to make any required amendments since they will constitute the AIDF Board of Governors.

(b) Control of Management functions

The proposals presented by the ADB for managing the AIDF take into account the involvement of African Ministers of Industry, as owners of the Fund, in the management of the AIDF. In general, the Bank would expect the owners of the Fund to define their priorities, policies and regulations as well as provide the guidelines and criteria which should be applied by the Bank in its management functions concerning the Fund. The implications of the ADB managerial functions may, therefore, be described as follows:

(i) Planning and programming of activities:

The Ministers of Industry should be mostly responsible for this function as the ultimate authority for providing policy guidelines, priorities and criteria as well as giving approval, either directly or through the AIDF Board of Directors. This will ensure that the Bank's role in this function will be consistent with the Fund's principles and objectives.

(ii) Administration

Supervision and control of the operations carried out with the resources of the Fund shall be the sole responsibility of the Bank. Employment and deployment of staff; processing of applications for loans; convening of Boards of Directors meetings; collecting, keeping and disbursement of funds of AIDF shall also be under the Bank's responsibility. For the purpose of supervision and control and efficient running of the AIDF, the Bank will also provide office accommodation, equipment or other property and services.

(iii) Mobilization of resources

The mobilization of resources is the responsibility of the Ministers of Industry who shall define policy and guidelines as well as the manner and sources from which funds will be raised. The Bank will be responsible only for collection of the resources which have been mobilized or raised by the Ministers of Industry or its Board of Directors.

(iv) Evaluation and implementation of project proposals

The ADB will assume total responsibility for this technical function.

(v) Allocation of resources

There will be need here again for distribution of responsibilities. Whereas actual allocation of funds should be left with management, the general principles for such allocation should be determined by the Ministers of Industry or their Board of Directors.

(vi) Disbursement of funds

This is definitely a function of management and accepted by ADB as such.

(vii) Accountability

The Bank itself, and not the office of the ADB President, will be answerable for the affairs of the Fund to the Ministers of Industry. Periodic reports will be submitted by the Bank to the Ministers of Industry on the management operations of the AIDF. Same reports will go to ADB Governors.

Option 2: Decide that the Board of Governors of ADB would also be the Board of Governors of AIDF, while the Ministers of Industry would provide policy guidelines and the President of ADB would report to the Conference of African Ministers of Industry.

This option is somewhat similar to Option 1, with the exception that the President of ADB would be required to report to the Ministers of Industry on matters relating to the management of the AIDF. However, as already made clear in the reaction of ADB, the ADB President cannot be answerable to the Ministers of Industry but the Bank itself could. To this effect, the ADB has proposed under Option 1 that the Bank would be accountable to the Ministers of Industry.

Furthermore, Option 2, unlike Option 1 does not spell out how the policy guidelines by the Ministers of Industry could be transmitted to AIDF.

Option 3: Set up the AIDF as an independent and autonomous body

By virtue of the Agreement establishing the AIDF, the Fund is an independent and autonomous entity. Given a number of constraints, however, it is advisable that, in the initial stages of its operations the Fund should obtain assistance and supervision from another African institution experienced in development finance.

IV. Conclusions and Recommendations

Given the circumstances of the AIDF and the current experience with the various intergovernmental organizations in Africa, the best option for managing the Fund would be that which would, in particular:

(a) minimize administrative expenses;

(b) allow the Ministers of Industry to effectively determine and exercise control over the policies of the AIDF; and

(c) allow the Ministers of industry to review the operation, structure and management arrangements of the Fund.

Option 1 is virtually the most preferred solution answering to the above conditions and also conducive to the important managerial functions to be undertaken. In this connexion, the ADB has proposed that it would manage the Fund only as a Trustee; and that the several States members of the AIDF (Ministers of Industry) and the Bank should, in due course, sign an agreement for the management of the Fund, bearing in mind that policies, regulations and criteria should be established by the Ministers of Industry. There was, therefore, a need to define more clearly some of the terms and to make corresponding amendments to the AIDF Agreement at a later date.

In this connextion the implications of option 1 should be understood as follows:

(a) Policies of the AIDF shall be determined by the African Ministers of Industry, as owners of the Fund;

(b) Priorities, guidelines and criteria for allocation of AIDF funds by the management, shall be provided by the Ministers of Industry;

(c) Mobilization of resources shall primarily be the responsibility of the Ministers of Industry;

(d) The Bank as a whole shall report regularly to the Ministers of Industry on the collection, allocation, disbursement and other operational matters of the Fund;

(e) Management of AIDF by ADB shall include the following functions:

(i) collection, keeping, disbursement and monitoring of AIDF funds;

(ii) evaluation and implementation of project proposals;

(iii) providing office accommodation, equipment and other property and services for the smooth running of the Fund;

(iv) supervision and control of the operations of the Fund;

(f) The Board of Governors of the AIDF shall be constituted by the African Ministers of Industry of the AIDF member States who shall hold meetings to formulate policies, and also to approve the planned activities, budgets and lending programmes of the Fund;

(g) The Board of Governors of AIDF shall select the Board of Directors (to serve for a specified period) to oversee the management of the AIDF by ADB. The Directors shall consist of a small group of qualified individuals selected on basis of their experience and expertise in the field of industrial finance, who will actually communicate with the Board of Governors on policy issues and make recommendations.